The Chartered Institute of Taxation

Application and Professional Skills

Taxation of Individuals

May 2025

Suggested answer

<u>Report for Alison Rolle prepared by Chartered Tax Advisors LLP on 8 May 2025</u>
<u>Proposed Move to the UK</u>

Introduction

This report is intended for use by you, Alison Rolle, only. No responsibility is accepted for any reliance placed on the contents of this report by third parties. It is based on tax legislation as it applies at the time of writing and any changes to the legislation may affect the conclusions of this report.

This report considers the tax implications of you returning to the UK for a 4-year assignment and whether you should continue to rent, sell, or move into either of your two properties in Bristol.

Executive Summary

To summarise our advice, we recommend the following:

Based on your current plans, you will be able to split the 2025/26 tax year such that your earnings before you arrive in the UK remain outside the scope of UK tax. If your plans change as regards your start date, hours to be worked in the UK or assignment length, let us know as this may affect this position.

The proposed £130,000 salary will not achieve a net salary of £85,000. Bahot LLC needs to increase the salary to £139,000. We also suggest that you ask Bahot LLC to pay for your initial travel to the UK and two annual family return trips either directly to the airline or reimburses you through expenses, rather than pay you a relocation allowance. Any other cash allowances will be taxable and you should budget to receive a net amount of 53% of the allowance paid.

There is little to choose between a secondment or local contract from a tax perspective. You should take advice from a lawyer with respect to any other employment consequences.

You should not sell the flat whilst UK tax resident. You should either sell the flat before you return to the UK and become UK tax resident again, or sell it after you leave and become not UK resident again. This will save £38,000 of Capital Gains Tax (CGT) compared to selling it once you are UK tax resident. If you cannot sell the flat before your return to the UK, then, from a tax perspective, it is preferable for you to sell the Bristol house in 3 years' time to realise the college funds you need.

Whether you live in the Bristol flat or house will not make a material difference to your tax position. You will need to make a new main residence election within two years of arrival. Before you make that decision, you should discuss with an independent financial adviser (IFA) the merits of selling or continuing to rent each Bristol property. If you keep renting one Bristol property, then you should put it into Eric's name to take advantage of his tax-free allowances and lower tax rate bands. To avoid high rates of tax on any investment income, you should consider investing any sale proceeds in Eric's name or overseas.

<u>Residence and general liability to UK tax.</u>

You have been non-UK resident for 17 years and therefore only liable to UK income tax (IT) on UK sources of income, i.e. the rents from two UK properties.

When you return, you will become UK tax resident again and thus liable to UK IT on your worldwide income. The point at which you become UK tax resident again needs careful consideration. By default, you will be resident for the whole of 2025/26, i.e. from 6 April 2025 and before you arrive, unless you can qualify for one of the "Cases" where you can split a tax year. Since you do not pay Bahamian tax on your earnings, you do not want to bring those earnings between 6 April 2025 and your date of arrival into UK tax and create a tax cost you would not ordinarily have.

The Case most likely to apply is Case 5, 'Starting Full-Time Work in the UK'. This case applies if you are working an average of at least 35 hours a week for a minimum 365-day period. Under this case you will be able to split the tax year from the first day you work at least 3 hours in the UK, which we assume would be 11 August 2025. Your visits to the UK before the start date must be under a given limit. With your two ties of the Cornwall property and having spent 101 days in the UK in 2023/24, you can have up to 50 days. With the 16 nights at Easter, a week's business trip in June and the days in the UK before you start work, you will be under this limit.

We don't believe Case 8, 'Starting to have a home in the UK', could apply, as this case only applies where you did not have a home in the UK at the start of the tax year but establish one at some point during the year and maintain one until at least 6 April 2027. The Cornwall property is a home now, even though you only use it periodically.

Therefore, we expect you will become UK tax resident from 11 August 2025 and the earnings while you are still in the Bahamas will not therefore be taxed in the UK.

Your liability to UK capital gains tax (CGT) is slightly different. UK residential property is liable to CGT even as a non-resident, although there are alternative ways to calculate the taxable gain when you are non-resident compared to when you are resident. We shall discuss CGT on any sale of your Bristol properties later in this report.

Employment income

You asked how much net income you would have with a salary of £130,000 and whether you should take a local UK contract.

Your net salary would be £80,686 per year. Please see Appendix 1. Your employer is correct that it would be around £85,000 after IT, however, not after social security contributions (NIC) as well. If you want to receive a net salary of £85,000 after IT and NIC, then you will need a gross salary of around £139,000. While you are working in the UK on this assignment you must pay NIC and you should factor this into your negotiations with Bahot LLC.

Since you expect to work full time in the UK, there is little difference between whether you take a local or a secondment contract. We would recommend taking advice from an employment lawyer as to whether there are other benefits or disadvantages to a secondment contract rather than a local UK contract.

[Examiner's note - candidates may discuss the 52 week NI exemption for secondments and the saving that this would create. This is not within the syllabus and is not required for the answer].

Cash allowances

Any cash allowances would be taxable, regardless of why they were paid. You would receive only 53% of the amount of cash paid after IT at 45% and NIC at 2%. Were you to incur any qualifying expenses using an appropriate allowance, then you can claim the IT back on the amount of the expenses on your personal tax return. You will not be able to claim the NIC back. The qualifying expenses you would be likely to incur are in relation to relocation and annual travel back to the Bahamas.

Reimbursed relocation expenses up to a limit of £8,000 are tax and NIC free, but these have to fall within certain categories. The ones you are most likely to incur are travel to the UK in July and shipping of your possessions. Given you are not intending to ship your household goods, the claim would likely be limited to your initial flights, any excess baggage and transport to and from the airport.

Bahot LLC could also provide travel back to the Bahamas during the assignment. If they were to reimburse or provide your own flight expenses, including travel to and from the airport, between the UK and the Bahamas, these will be exempt from both tax and NIC. Bahot LLC can also provide or reimburse the cost of two return trips per year tax free for Eric and (provided they are under the age of 18 at the start of the trips) the two children. Any additional trips provided will be taxable. However, if arranged for by Bahot LLC and paid for direct, there is no additional employee's NIC which would save you 2%.

We recommend that Bahot LLC should pay these costs directly with the airline or as reimbursement of expenses, rather than as an allowance. As explained above a cash allowance is taxable initially, which is poor cash flow for you, and it suffers NIC, which you cannot claim back. Direct payment by Bahot LLC or reimbursement, would result in no tax or NIC in the first place provided the expenses are all qualifying.

Any additional allowance from Bahot LLC to cover your other costs, will be fully liable to IT and NIC and you should budget to receive 53% of the gross allowance.

Principal Private Residence Relief

Before we discuss the likely gains on the sale of your Bristol properties, we should consider if Principal Private Residence ("PPR") relief is available to reduce the gain. This is a tax relief on a property you have lived in as your main residence. As a couple you can only have one main residence at any time and it is not relevant who owns it.

You lived in the Bristol flat between 2005 and 2008 and you had no other home at that time. Therefore, you qualify for at least some PPR relief on the Bristol flat. Because there is some PPR relief on this property, you will also qualify for deemed PPR for the last 9 months of ownership.

Where there are multiple residences at the same time, you can make a written election to HMRC declaring which is your main residence. You have already done this once because, when you started using the Cornwall house, this gave you two residences. Cornwall has been elected as your main residence and thus is eligible for PPR relief from 6 April 2023 provided you spend at least 90 nights there a year. You have spent enough nights there in 2023/24 and 2024/25 to qualify for PPR relief in those two years.

However, you will have three potential residences when you move to the UK: your house in Nassau, your house in Cornwall and the Bristol property you decide to use. So we will need to reconsider which property to elect for. You have two years from the point you move to the UK to make the election, so we have time. I would recommend getting advice from an IFA about likely property price increases before that decision is finalised. If you don't elect, then HMRC will determine which property they regard as your main residence and qualifies for PPR.

Unless you are planning on selling Nassau or Cornwall any time soon, then it could be beneficial to maximise your PPR relief on one of the Bristol properties. You will occupy one of these as a home when you return to the UK. Although you are also spending time in Cornwall and Eric and the children are there, so Cornwall is a home as well, you can elect for Bristol if you also use that as a home too. It will be factually the place you will spend most time in. To help demonstrate that the Bristol property is a home, despite your family living elsewhere, you will need to commit to live in the Bristol property, so you could not advertise it as available for sale or rent. It should be kept fully-furnished.

CGT on The Bristol Properties

I have estimated (Appendix 2) the likely gains if you sell one of the properties and live in the other as your main residence, which you will later sell as originally planned. Please note that these calculations are only estimates as I have had to make several assumptions about the values and dates. However, it will give you an idea of the costs of your options.

I appreciate that you would prefer to move into the Bristol house and either continue to rent out or sell the flat. We shall discuss on-going rental later in the report. For now, let us assume you would sell the Bristol flat and move into the house.

If you could sell the Bristol flat before you come to the UK, then you would have a CGT liability of around £13,500. However, it is critical that the sale contract on the property is exchanged before your UK tax residency commences. This is because there is a different way of calculating the taxable gain for non-residents. If you sold the Bristol flat while UK resident, then the CGT would be around £51,700, an increase of £38,000. You could reduce this a little by moving into the flat, but there would still be a lot more tax than selling while non-UK-resident. Therefore, it is strongly advised that you only sell the flat while you are not UK tax resident. This could be now, before July 2025, or after you have returned to the Bahamas in 2029.

If you sell the flat now, this money could be invested elsewhere until the children turn 18 and you need to start paying college fees. If you have to wait until 2029 to sell the flat, then you would have to sell the Bristol house in 3 years' time. This would expose you to having to live elsewhere in Bristol during the last year of your assignment. This could be the flat or elsewhere. In the future when you sell the Bristol house, you would then have a gain of around £7,600, if you have some PPR relief, or £16,300 if not.

In summary, you should either sell the flat before you arrive in July 2025 and invest the proceeds elsewhere until you need them for college fees. Alternatively, you should wait until after you leave the UK again. You can move into the Bristol house but you may need to sell it in 3 years' time, to raise the needed college fees, if the flat is not sold now.

<u>Renting one of the Bristol properties/Investing any sale proceeds</u>.

The Bristol house earned you £16,000 in profit last year. Given a value of £600,000, this is only a 2.67% return. The Bristol flat earned you £9,000 in profit, which on a value of £400,000 is 2.25%. Of course, the value of the properties may increase in the next three years. However, the rate of return on both the rental properties is fairly low. I would therefore recommend speaking to an IFA about whether possible increases in property values will outweigh the low rate of return and about alternative investments you could make with the sale proceeds.

Once you are resident in the UK and earning your salary, you will be in the 45% tax bracket. Any rent or UK interest you receive will be taxed at 45%. You may be able to make use of an ISA account, where interest is tax-free. Again, an IFA would be able to advise you on this.

You could also take advantage of Eric's unused tax-free and lower rate tax bands. If the property was in his name, then the rent would be taxed on him and would be under his tax-free allowance, so no tax would be due. As you are married, you can transfer the property into his name with no tax charges. Similarly, if the sale proceeds were invested in a UK bank account in his sole name, the interest above his tax-free allowances would only be charged at 20%.

You are both not UK domiciled. You could therefore qualify for the remittance basis. On this basis, you would not pay tax on interest from a non-UK account provided you never brought the money to the UK. Therefore, you could invest any sale proceeds in either your or Eric's name in an offshore account. Eric would, however, lose his tax-free personal allowance if he uses the remittance basis. This is not an issue for you as you have already lost your allowance, given the level of your salary, but you would lose your £3,000 annual capital gains allowance. Subject to what you decide to do with the properties and what investment strategy you choose, we can discuss this further to see if it is worth doing the remittance basis or not.

In summary, you are getting a low rate of return by continuing to rent either of the Bristol properties, coupled with the additional taxes on the rental profit. You are also not making use of Eric's lower tax position. You should discuss your possible investment options with an IFA and we would be happy to then comment on the tax position of their suggestions.

If you have any questions regarding the content of this report, please do not hesitate to ask.

Appendix 1

Calculation of Net Salary

					£	£
Gross salary					130,000	139,000
Personal allowance	Reduced to £0 as salary exceeds £125,140				(0)	(0)
Taxable salary					130,000	139,000
Tax:						
Basic rate band		£37,700	£37,700	@ 20%	7,540	7,540
Higher rate band		£87,440	£87,440	@ 40%	34,976	34,976
Additional rate band		£4,860	£13,860	@ 45%	2,187	6,237
		£130,000	£139,000		£44,703	£48,753
NIC:						
PT		£12,570	£12,570	@ 0%	0	0
PT to UEL		£37,700	£37,700	@ 8%	3,016	3,016
Above UEL		£79,730	£88,730	@ 2%	1,595	1,775
		£130,000	£139,000		£4,611	£4,791
Net salary					£80,686	£85,456

£130,000 gives a net salary of £85,297 after tax but not after NIC as well. To cover the NIC liability, it is necessary to gross up NIC element (£4,611 / [100-(45+2)/100]) = £8,700. Salary therefore needs to be at least £138,700. Suggest £139,000.

Appendix 2

Calculation of Estimated CGT liability

Bristol Flat

	Basic Gain if no action taken	If sold before UK return (rebased to April 2015)	If moved in on return and sold in 4+ years, when not UK resident again (rebased to April 2015)
	£	£	£
Estimated sale price	400,000	400,000	400,000
Estimated costs of sale	(6,000)	(6,000)	(6,000)
Purchase price /April 2015 value	(123,000)	(330,000)	(330,000)
Acquisition costs	(1,000)	0	0
Estimated net gain	270,000	64,000	64,000
PPR relief			
Total ownership period to say 6 July 2025	243 months	123 months	
(or 2029)			171 months
Original occupation	36 months	n/a	n/a
Occupation since return			48 months
Deemed PPR last 9 months	9 months	9 months	9 months
Estimated percentage of exempt gain	19%	7%	33%
Chargeable gain	218,700	£59,520	£42,880
Annual exemption	(3,000)	(3,000)	(3,000)
	£215,700	£56,520	£39,880
Estimated tax due @ 24%	£51,768	£13,565	£9,571
Estimated net proceeds	£342,232	£380,435	£384,429
Saving against basic gain		£38,203	£42,197

Bristol House

	Basic gain	If moved in on return to UK and sold in 3 years while UK resident
	£	£
Estimated sale price	600,000	600,000
Estimated costs of sale	(9,000)	(9,000)
Probate value	(520,000)	(520,000)
Acquisition costs	0	0
Estimated net gain	71,000	71,000
PPR relief	n/a	
Total ownership period to say 6 July 2028		70 months
Occupation since return		36 months
Deemed PPR last 9 months		n/a
Estimated percentage of exempt gain		51%
Chargeable gain	71,000	34,790
Annual exemption	(3,000)	(3,000)
	£68,000	£31,790
Estimated tax due @ 24%	£16,320	£7,630
Estimated net proceeds	£574,680	£583,370